

Fraternal beneficiary society; optional insurance. A domestic fraternal beneficiary society of farmers operated under the lodge system that does not itself provide for the payment of life, sick, accident, or other benefits to its members, but arranges with insurance companies to provide optional insurance to its members and devotes its net earnings exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes does not qualify for exemption under section 501(c)(8) of the Code but does qualify under section 501(c)(10).

Advice has been requested whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(8) or section 501(c)(10) of the Internal Revenue Code of 1954.

The organization is a domestic fraternal society of farmers that is operated under the lodge system. The organization does not provide for the payment of life, sick, accident, or other benefits to its members. However, it has made arrangements with two independent insurance companies for the latter to provide insurance to those members of the organization who may want such insurance and who make application individually for their particular policies. One of the insurance companies provides policies such as fire and extended coverage, homeowners, farmowners, auto casualty, and farm and residence liability; the other provides life and disability insurance. The insurance provided does not accrue automatically to the members as part of the benefits for dues paid. Members may or may not, at their own option, purchase the insurance from these companies. About 60 percent of the members purchase insurance from these companies, and their payments are made to the insurance companies directly.

The organization's receipts consist primarily of annual dues from the members. The organization's expenses consist of general operating expenses, costs for the conduct of classes to provide guidance to its lodges on how to operate efficiently and effectively, costs for regional meetings, and costs arising from work with other farm organizations in support of rural improvements. Any net earnings are devoted exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes.

Section 501(c)(8) of the Code provides for the exemption from Federal income tax of fraternal beneficiary societies, orders, or associations-

(A) Operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and

(B) Providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents.

Section 1.501(c)(8)-1 of the Income Tax Regulations provides, in part, that in order to be exempt under section 501(c)(8) of the Code, a fraternal beneficiary society must have an established system for the payment to its members or their dependents of life, sick, accident, or other benefits.

In the instant case, while pursuant to the organization's arrangement with the insurance companies members of this organization are eligible for favorable insurance rates, the organization itself is not providing for, or underwriting, the life, sick, accident, or other benefits. The agreements are between the individual members and the insurance companies. Accordingly, the organization is not exempt from Federal income tax under section 501(c)(8) of the Code.

However, section 501(c)(10) of the Code provides for the exemption from Federal income tax of domestic fraternal societies, orders, or associations, operating under the lodge system-

(A) The net earnings of which are devoted exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes, and

(B) Which do not provide for the payment of life, sick, accident, or other benefits.

Section 1.501(c)(10)-1 of the regulations provides that an organization will qualify for exemption under section 501(c)(10) of the Code if it-

(1) Is a domestic fraternal beneficiary society, order, or association described in section 501(c)(8) and the regulations thereunder except that it does not provide for the payment of life, sick, accident, or other benefits to its members, and

(2) Devotes its net earnings exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes.

The organization described above is a domestic fraternal society that would be described in section 501(c)(8) of the Code except that it does not provide for the payment of life, sick, accident, or other benefits to its members. It does, however, devote its net earnings exclusively to religious, charitable, scientific, literary educational, and fraternal purposes. Accordingly, the organization is exempt from Federal income tax under section 501(c)(10) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(10) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to Form 1024. For group exemption procedures, see Rev. Proc. 72-41, 1972-2 C.B. 820.